Massachusetts Department of Revenue

S 3917-1-4
6/1/88

To the Honorable Michael S. Dukakis, Governor of the Commonwealth and the Honorable Members of the General Court of Massachusetts:

I am proud to submit to you this Annual Report. The Department of Revenue (DOR) kept with tradition by breaking new ground in Fiscal Year 1987. By institutionalizing what were once innovations and developing new programs and strategies, DOR continued the progress begun in 1983. This annual report details the achievements of FY87 as well as some of the highlights of previous years that made these most recent accomplishments possible.

Although he would be the first to give credit to, in his words, "DOR's dedicated careerists and talented newcomers," my predecessor, Ira A. Jackson, was the hard driving and creative force behind the Department's outstanding record. With your support and the support of Secretary for Administration and Finance Frank Keefe, Commissioner Jackson changed the way people think about tax evaders and, as importantly, tax collectors. His message of "honest, firm and fair" tax administration and the management reforms that he pioneered ushered in a new era of professionalism and achievement at DOR.

It was an honor for me to be appointed Commissioner of Revenue in September, 1987. Taking charge of an agency that has established such a record of excellence is a great challenge. With the advent of the next generation of computer technology, the expansion of Local Services and Child Support Enforcement and the daily rigors of tax administration, DOR begins FY88 much as it began FY87: With a tremendous amount of work to do, pride in what has gone before and enthusiasm for the job ahead.

Sincerely,

Stephen W. Kidder

Stephen W. Kidder
Commissioner of Revenue

Massachusetts Department of Revenue

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DOR HIGHLIGHTS

FY84

McDaniel Commission Report Published.

REAP Signed Into Law By Governor Dukakis.

Amnesty Program Ends After 3 Months With $86 Million Collected From 52,000 Taxpayers.

Service For Taxpayers Greatly Expanded With Added Staff, Phonelines And Taxmobiles.

Tax Form Redesign Begins With New ABC Forms Prepared.

Municipal Data Bank Comes "On-Line" And Management Consulting To Cities And Towns Is Under Way.

FY85

For The First Time In State History, A Taxpayer Is Jailed For Tax Fraud.

Criminal Investigations Begin Into Taxpayers Who Fail To Report Out-Of-State Wages.

Local Aid "Cherry Sheets" Ready On Schedule For The First Time Since 1974.

FY86

Code Of Conduct Implemented For All Professional And Managerial Employees.

550 Employees Win Highest State Award For Public Service Thanks To Outstanding Performance During Filing Season.

First Full And Fair Property Tax Valuation Completed For All Communities In The Commonwealth.

FY87

Governor Dukakis Signs Legislation To Transfer Child Support Enforcement To DOR In FY88.

Local Services' Analysis Unit Produces First In-Depth Reports On Municipal Finance Trends.

Court Levies Largest Fine Ever For Tax Evasion.

IRS-DOR Agreement Signed For Expanded Cooperation.

DOR Joins With The Attorney General In A New Effort To Battle Tax Evasion.

Fastest Average Refund Turnaround Ever Achieved – 12.5 Days.

MASSTAX Legal Guide Introduced.

Tri-State Compact For Sales/Use Tax Enforcement Begins.

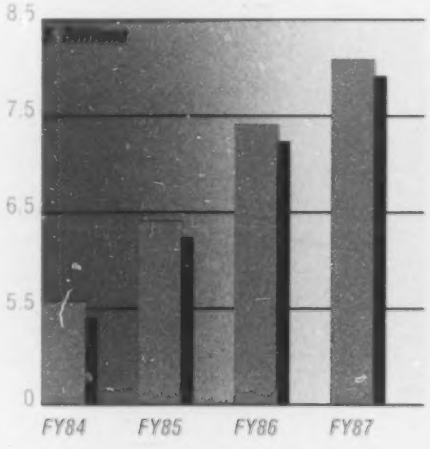
INTRODUCTION

The Massachusetts Department of Revenue (DOR) has made history: A model Amnesty Program, invigorated tax enforcement and enhanced customer service have fueled a record increase in both delinquent tax collections and voluntary compliance since 1983. Along with the resurgence of the Massachusetts economy, these achievements have helped fund the largest tax cut in State history without any cutbacks in vital services.

At the same time, DOR has been setting new standards in other areas. The Division of Local Services oversaw the distribution of over $10 billion of State aid to the Commonwealth's 351 cities and towns, much of it as additional aid in response to the property tax limits set by Proposition 2½. Massachusetts also became the only state in the Nation to establish a formula by which cities and towns are reimbursed for cuts in federal revenue sharing. And as all communities faced dramatic changes in their fiscal environment due to Proposition 2½, DOR was there to provide financial expertise and, perhaps most importantly, to help all cities and towns determine full and fair property values for the first time.

Back in 1983, all this would have been difficult to predict. Indeed, DOR's unprecedented success has earned it an important new responsibility—Child Support Enforcement (CSE); as FY87 opened, Governor Dukakis and the Legislature entrusted DOR with the task of building the State's first comprehensive system for ensuring that thousands of innocent children receive a fair share of support from their absent parents. Not scheduled to actually take over CSE from the Department of Public Welfare until FY88, DOR nonetheless made significant gains during FY87 toward laying a solid foundation for a comprehensive and effective program. ■

STATE REVENUE COLLECTIONS



EMPHASIZING INTEGRITY WITHIN DOR HAS CHANGED THE PUBLIC'S ATTITUDE ABOUT TAX EVASION.

Former IRS District Director John Johnson and then Revenue Commissioner Ira A. Jackson pave the way for increased IRS/DOR cooperation at signing of landmark Federal-State Tax Exchange Agreement.

INTEGRITY

On April 10, 1987 the Department of Revenue and the Internal Revenue Service signed an historic agreement to allow a greater exchange of information than ever before as well as more joint audits and criminal investigations. In the words of then IRS District Director John Johnson, the agreement, "...may be the most comprehensive in the country."

According to Director Johnson, this new IRS/DOR partnership stood in stark contrast to past relations between the two agencies: Only a few years ago, questions about DOR's competence and, most critically, its integrity had made the IRS extremely wary of sharing confidential tax information.

The first milestone on the long road to rebuilding public confidence and winning the respect of other tax professionals occurred in July 1983. The bi-partisan McDaniel Commission, appointed by newly-elected Governor Michael S. Dukakis, issued its report crystalizing the scope of the crisis in public confidence the Department of Revenue then faced:

"Despite DOR's accomplishments, ...many people... view it as inefficient, subject to and perpetuating improper political influence in its operations, often arbitrary, unprofessional and insensitive in its dealings with the public, and, most seriously, a source of corruption within State government."

The McDaniel Commission found a direct correlation between the public's perception of the Department's integrity and competence and how honest and forthcoming taxpayers are likely to be in fulfilling their legal obligations. With the McDaniel Commission as a guide, DOR set in motion the events that eventually made possible the 1987 IRS/DOR agreement, restoration of public confidence in the agency and a dramatic increase in voluntary compliance.

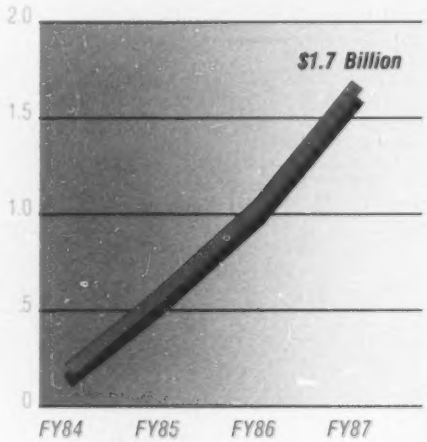
Chaired by Boston College Law School Professor Paul McDaniel, the McDaniel Commission benefited from over 2,500 hours of *pro bono* consulting work from major private sector accounting firms. As outlined by the Commission, DOR's lack of internal controls undermined public confidence in the Department and, most importantly, left honest employees at the mercy of baseless charges of corruption.

DOR's management moved quickly to address these problems. A Division of Inspectional Services was established in 1983. Independent from the rest of the agency, its Internal Audit and Internal Affairs Offices are able to oversee the integrity of all of the Department's systems and employees. Pre-hiring background checks and regular monitoring to ensure that all employees are completely in compliance with State and federal tax responsibilities are now routine. Tough new standards to ensure the confidentiality of taxpayer information are now part of everyday business at the Department.

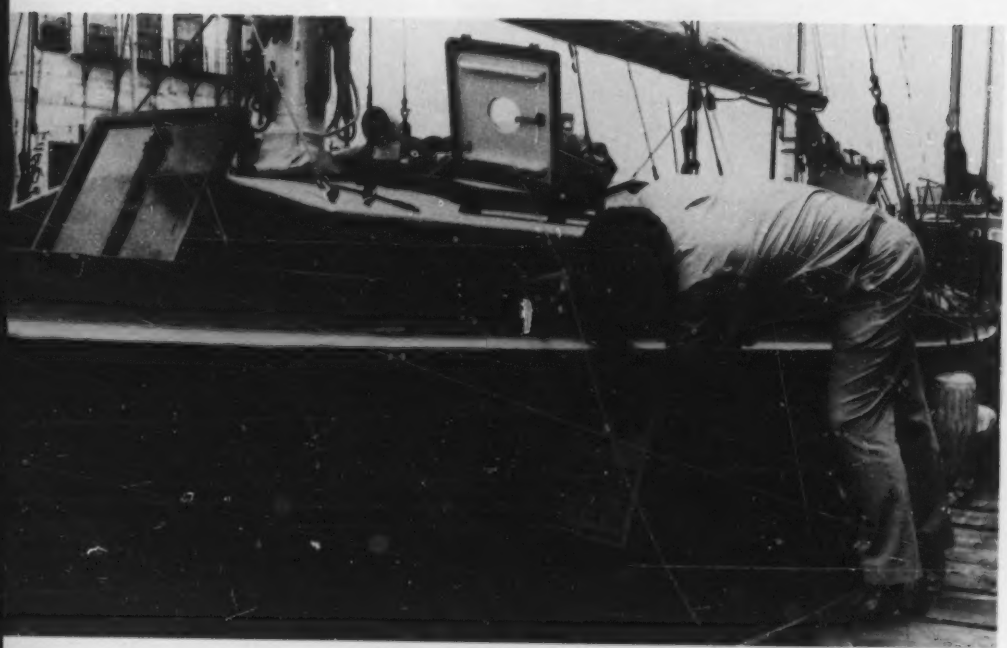
Equally valuable are on-going efforts to keep all employees focused on the crucial role integrity plays at DOR. In FY86, for example, the agency implemented a precedent-setting Code of Conduct for all professional and managerial staff. Reinforced by agency-wide training and an award-winning video, the Code was adopted for all clerical employees in FY87.

As the McDaniel Commission foresaw, emphasizing integrity within DOR has changed the public's attitude about tax evasion. The realization that tax evaders are stealing from their neighbors and friends has helped to boost voluntary compliance with the tax laws dramatically: With FY87 figures now available, it is possible to estimate that voluntary compliance has grown over the last four fiscal years by $1.7 billion—an unparalleled increase and an unexpected dividend from the work begun in 1983. ■

REVENUE GAINS FROM INCREASED VOLUNTARY COMPLIANCE



PROPOSED BY GOVERNOR DUKAKIS AND PASSED BY THE LEGISLATURE IN JULY 1983, REAP'S 101 SECTIONS, COMBINED WITH THE MCDANIEL COMMISSION RECOMMENDATIONS, HELPED DOR TO INITIATE A NEW ERA OF EFFECTIVE TAX ADMINISTRATION IN THE COMMONWEALTH.



Pay up or don't set sail is the message signaled to the owner of this 50-foot yacht as Revenue agent Ted Moynihan seizes it for non-payment of taxes.

REAP

Just as the McDaniel Commission sparked broad-based internal reforms, the Revenue Enforcement and Protection (REAP) program gave DOR the resources and impetus to pursue tax evaders and delinquents vigorously. Proposed by Governor Dukakis and passed by the Legislature in July 1983, REAP's 101 sections, combined with the McDaniel Commission recommendations, helped DOR to initiate a new era of effective tax administration in the Commonwealth.

REAP marked a turning point for DOR. Originally enacted to close a projected $300 million deficit without resorting to new taxes or slashed State services, REAP far outperformed all expectations: By the end of FY87, REAP had helped boost total collections through enforcement efforts to a record $1.3 billion. REAP's success has influenced legislative changes across the country and continues to attract attention nationwide.

During FY87, for example, the bi-partisan Dorgan Congressional Taskforce recommended a series of investments in federal tax administration designed to collect the billions of dollars the U.S. government loses annually in uncollected taxes. Chaired by two former IRS Commissioners, the Taskforce cited Massachusetts' "innovative campaign" to strengthen compliance with its tax

laws. With the participation of former Commissioner Jackson and his First Deputy Thomas Herman--the only state officials on the panel— the Taskforce proposals drew from the Commonwealth's recent success in strengthening enforcement as well as improving service to honest taxpayers.

A national version of many of the efforts made possible in Massachusetts thanks to REAP, the Taskforce recommendations hold the promise of dramatically improving compliance with federal tax laws.

REAP first captured the general public's attention with its innovative and highly successful Amnesty program. Although a handful of other states had experimented with amnesties before the Massachusetts program began in October 1983, the $86 million DOR collected from 52,000 taxpayers easily surpassed every record and exceeded all expectations. Many other states soon followed the Commonwealth's model, making once-in-a-lifetime amnesties a major tool in state tax administration across the country.

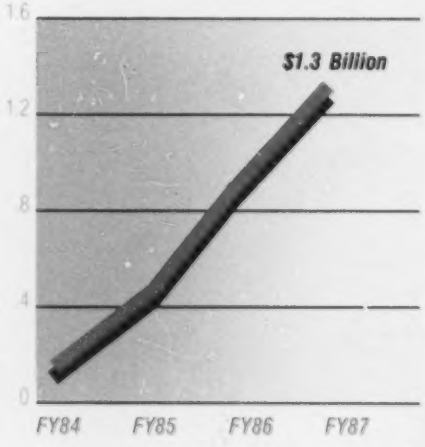
Beyond its bottom line success, Amnesty served as an important transition vehicle to a more energetic approach to tax administration: Its guarantee that past errors would be forgiven in exchange for full payment helped create wide-spread popular support for the tougher stance that followed.

For example, REAP enacted tougher criminal penalties and stiffer fines for tax evasion and prosecution of these cases became a top priority at DOR. Indeed, from FY84 through the end of FY87, 45 individuals and 17 corporations have been found guilty of tax fraud. In FY87, as well, the largest single fine ever for tax evasion was levied against an out-of-state software company, and on April 14, 1987 DOR joined with Attorney General James Shannon in a new partnership to expand even further the resources available to fight criminal tax evasion.

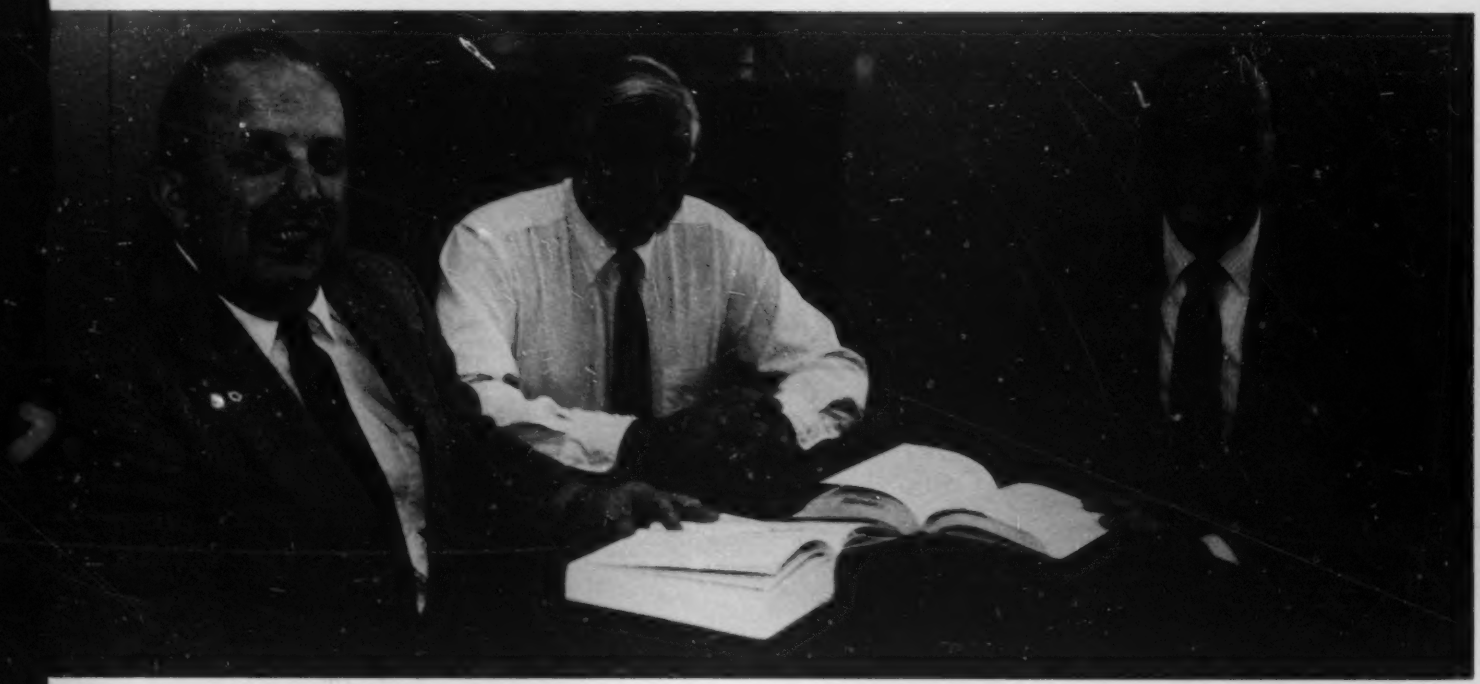
REAP also increased the interest rate on unpaid taxes and mandated that any State contractor or licensed professional be in full compliance with all State tax laws. In addition, REAP created a valuable and cost-effective collection tool by allowing DOR to use private collection agencies.

Since REAP became law, DOR has greatly expanded its capabilities and productivity. Today, the chances are better than ever that even the most sophisticated tax evader will be discovered and quickly pursued. Most importantly, REAP's success has restored honest taxpayers' confidence in the system and DOR's ability to administer the Commonwealth's tax laws fairly and firmly. ■

TOTAL ENFORCEMENT COLLECTIONS



Fortunately for tax administrators, the overwhelming majority of people take their tax paying responsibilities seriously and pay what they owe in full and on time. Unfortunately for these taxpayers, tax administrators have too often taken them for granted. Left to their own devices to wade through overly complicated tax forms, unable to reach someone who could answer their questions or explain their rights, and frustrated by long waits for service, many taxpayers had come to view the taxman or woman as anything but a public servant.



With over 100 years of combined service to the Commonwealth, DOR Deputy Commissioners Nicholas Metaxas, General Counsel; George Osganian, Processing; and Daniel Breen, Revenue Estimation; provide the Department with a wealth of experience and a continuing commitment to excellence.

In early 1983, as DOR prepared for its crackdown on tax evaders and delinquents, the Department realized that equal effort had to be devoted to helping honest taxpayers comply with the

law. Indeed, to "get tough" about enforcement without "getting smart" about service would have been a prescription for failure.

Some reforms happened quickly: Community-based taxpayer assistance was increased by ten-fold for that filing season while a fledgling Problem Resolution Office set up shop in May 1983 to handle taxpayers' problems that could not be resolved through existing channels.

Other changes had to take longer: After months of revisions and market tests, for example, DOR introduced Form ABC, its first "user-friendly" form, in January 1984. Written in plain English and designed with colors and graphics to help taxpayers follow its instructions, Form ABC was used by over one million people that year; some taxpayers actually took the time to write thank you letters to the Department for making filling out their returns easier than ever before.

Perhaps the most appreciated innovation of all was DOR's pledge in 1985 to make reducing refund turnaround time a top priority. With more than half of all taxpayers due a refund through their annual filing, this reform had a direct impact on over two million people. Promising that year to process refunds on error-free returns within four weeks, DOR surpassed its goal by achieving an average turnaround of just 16 days and entered a new era of customer service.

During Fiscal Year 1987, DOR achieved its fastest refund turnaround time ever with a 12.5 day average for the entire filing season. Working around the clock, the Department was able not only to send $330 million back to taxpayers in record time but also to beat its own record for getting payments in the bank to start earning interest for the Commonwealth.

At the same time, over 500,000 people were helped through the Department's taxpayer assistance program, with services available in 11 languages and in over 400 locations.

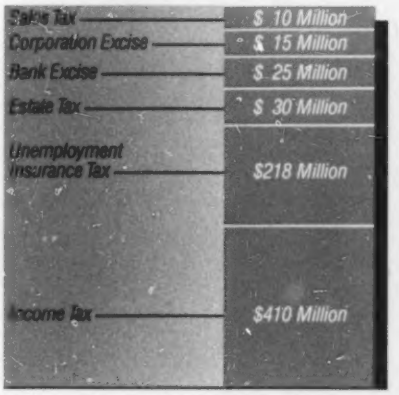
Work continued throughout the year to improve communications with taxpayers. In a landmark move, for example, DOR and West Publishing Company produced the first three volumes of the Masstax Guide—one of the most comprehensive compilations of state tax laws available anywhere in the country. Four years in the making, the final volumes will be completed in FY88 and will be updated regularly to remain current with all legal, regulatory and procedural developments.

DOR substantially increased its efforts to clarify obscure or disputed tax issues as well. In FY87, it tackled issues—ranging from the sales tax status of mobile homes to the State tax implications of federal tax reform—through a record

TO "GET TOUGH" ABOUT ENFORCEMENT WITHOUT "GETTING SMART" ABOUT SERVICE WOULD HAVE BEEN A PRESCRIPTION FOR FAILURE.

ANNUAL SAVINGS FROM TAX CUTS

Enacted Since January 1983



Total ***$708 Million***

number of regulations, letter rulings, technical information releases and DOR Directives. Non-residents who have Massachusetts source income, for example, had their reporting requirements significantly streamlined through the first revision of the regulation governing their tax obligations in 30 years. The Department also entered into a pioneer partnership with private industry by helping the Advertising Club of Greater Boston produce A Sales Tax Guide For Massachusetts Advertising Agencies.

The Taxpayer Advisory Bulletin (TAB) saw its circulation reach a new high in FY87 with a mailing list of over 26,000 accountants and tax lawyers. Since its debut in 1985, the TAB has grown into one of DOR's most useful and respected publications, offering a wide range of timely information on all issues that affect the practitioner community.

DOR completed a year-long effort to revise and simplify all of its major Estate Tax forms during FY87. Concurrently, a special Noticing Project Team finished rewriting and streamlining the lion's share of the hundreds of different notices which DOR sends to taxpayers. Some of these notices had been in use since the 1960's without any comprehensive review.

FY87 also saw the Problem Resolution Office—buoyed by an increasingly experienced staff as well as the introduction

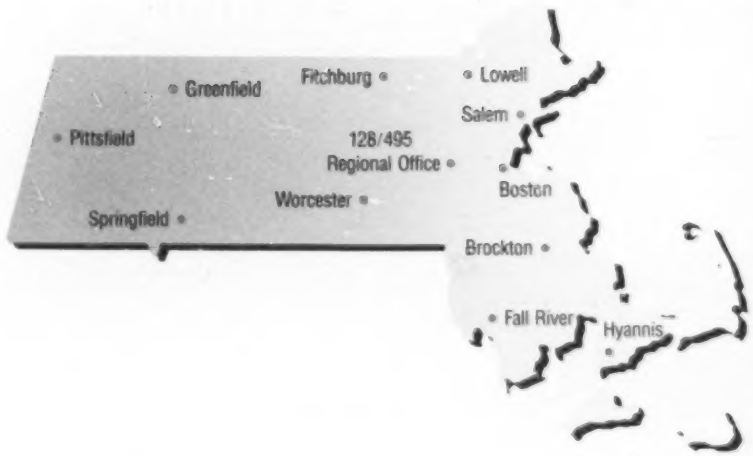
First three volumes of Masstax Guide unveiled by Director Bonnie Moynihan (seated) and staff (from left): Steve Meunier, Doris Alvarez, Anne Noonan Singleman, Gina Perella, and Richard King.

of an automated case tracking system—increase its productivity to such an extent that it was able to reduce its backlog of cases by nearly 50%. The Abatement Bureau marked a similarly striking improvement by boosting the number of abatements it processed by almost 40% over the previous year.

DOR ended the year by launching a comprehensive campaign to educate merchants in Massachusetts, Connecticut and Rhode Island about their responsibilities to collect the sales/use tax. As part of the Tri-State Compact, DOR offered a three-month grace period during which out-of-state vendors who were liable for the tax could come forward without risk of a retroactive assessment. For this effort, the Department conducted one of its largest special direct-mail efforts ever. While still in progress at the close of the fiscal year, the Compact already had generated an overwhelmingly positive response from the business community with several thousand vendors registering to collect the appropriate tax. ■

OVER 500,000 PEOPLE WERE HELPED THROUGH THE DEPARTMENT'S TAXPAYER ASSISTANCE PROGRAM, WITH SERVICES AVAILABLE IN 11 LANGUAGES.

DISTRICT OFFICES

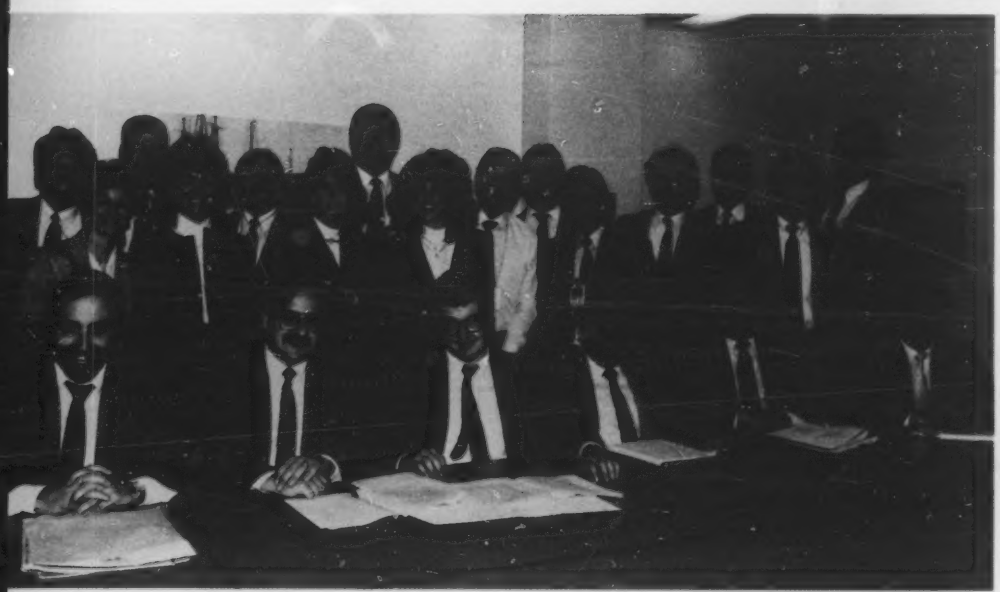


With its convenient District Office locations, DOR provides wide-ranging services to taxpayers throughout the Commonwealth.

TAX ENFORCEMENT

Most people rarely encounter a tax auditor, collector or criminal prosecutor. Yet, what hundreds of DOR employees have done to ensure the absolute fairness of the tax system has become well known throughout the country.

Since the start of FY84, DOR's wide-ranging and innovative approach to tax enforcement has translated into a much more sophisticated, well targeted and effective insurance policy for honest taxpayers. With increased staff, better training, as well as the introduction of important new technologies, DOR has been able to investigate systematically areas that were beyond its reach even five years ago.



Multistate Bureau staff from around the country join their Massachusetts counterparts at a Management Conference in Boston. (Front Row, from left): Anthony Grasso, Gerard Esposito, Francis Schaefer, Anwar Mikhail, Robert Rieger, Ruil Springer. (Back Row, from left): Thomas Lynch, Joanne Arena, Richard Marshall, Karen Quinn, Dennis Conley, Susan Slattery, Michael Kelly, Joan Bernazzani, George Lewis, Kevin Conway, Arturo Barberan, John Powers, Donald Lamb, Lee Hiteshew, and Lawrence Modestow.* (*These employees joined the Bureau in FY88.)*

In 1983, for example, DOR's presence in other states was limited to pursuing corporate excise tax due to the Commonwealth. By the end of FY87, in contrast, DOR's Multistate Bureau had branched out to cover all other tax types, including sales, income and estate, with each Multistate auditor responsible for an average of $1.5 million in new assessments annually. At the same time, DOR's agreements with other states' tax departments to exchange information for enforcement purposes had expanded from just four in 1983 to 44 in 1987.

Within DOR, there has been a commitment not only to enforcing the laws fairly but also to communicating clearly the consequences of non-compliance. DOR pioneered this approach during the summer of 1983 when its Boat Project began. For the first time, the Department conducted a marina to marina sweep to check whether luxury boat owners had properly registered and paid sales tax on their vessels. Those owners who failed to respond to DOR's notices saw their yachts seized by the Commonwealth until payment was made.

The project was a clear signal to all future boat owners who might try to avoid the appropriate sales or use tax, as well as to anyone who read the newspapers or watched the news, that DOR had begun an unprecedented round of firm and creative enforcement efforts. By FY87, that early commitment had grown into an unprecedented 201 seizures for all types of delinquent taxes which generated over $8 million for

the Commonwealth.

FY87 saw DOR employ its whole arsenal of resources in the pursuit of delinquent or evaded taxes. The year began, for example, with much of the agency's efforts focused on preparing the first public disclosure list of major delinquents in three years. After months of painstaking review of each case—which included collecting over $13 million in back taxes—the Department published the names of 3,786 companies and individuals who had owed the Commonwealth at least $5,000 for six months.

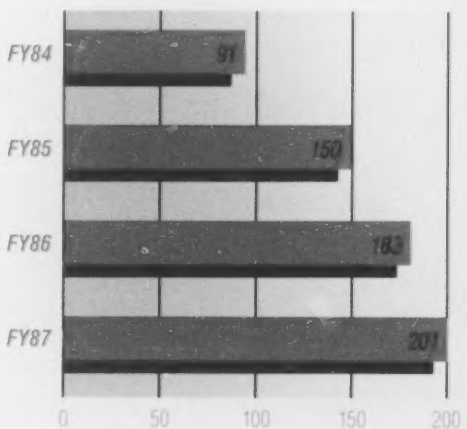
Despite its record, other enforcement efforts ultimately dwarfed public disclosure and brought DOR's total annual collection of overdue taxes to almost $351 million—enough revenue to finance, for example, the Commonwealth's FY87 investments in the Employment and Training CHOICES program, the State Police as well as the entire Department of Public Health.

The majority of DOR's enforcement personnel, in fact, conduct their business in complete confidentiality. DOR auditors, for instance, uncovered over $4 billion during FY87 in previously unreported or underreported taxable income through 72,000 audits. At the same time, DOR's massive data base was upgraded to allow, for the first time, the generation of consolidated bills covering all tax periods. To ensure payment by even the most recalcitrant taxpayer, the Department in FY87 also placed liens generating a record $20 million, and served over 10,000 levies, including 201 seizures of property.

DOR's authority to carry out these efforts rests on a firm legal foundation. In FY87 the agency's Legal Bureau maintained its record of never being overturned in a seizure case and successfully defended the Department in over 75% of the cases brought before the Appellate Tax Board (ATB). Many of these cases involved a wide range of complicated and often controversial legal issues which have a significant impact on DOR's administration of the Commonwealth's tax laws. Among the issues decided by the ATB were the choice of separate accounting and apportionment formulas for corporate excise purposes, the deductibility of losses on earnings from gambling and the imposition of interest and penalties on overdue taxes. DOR lawyers also worked closely with the Attorney General's office on a variety of cases heard by the Appeals Court and the Supreme Judicial Court.

The agency broke new ground in pursuing criminal tax fraud as well. Again with the help of the Attorney General, DOR developed a record number of criminal cases during the year. Its "Southern Lights" program—which targets Massachusetts residents who fail to pay taxes on wages earned in Connecticut—continued to send a powerful message: FY87 brought the total number of "Southern Lights" cases prosecuted to 13 and marked the first of the New Hampshire-focused "Northern Lights" cases. DOR also launched its "Autoscam" program with the indictment of a greater Boston car dealership employee for overreporting the value of trade-ins to avoid the sales tax on motor vehicles. ■

SEIZURES



Responsible for administering 22 different taxes and accounting for over $30 million in deposits every day, DOR ranks as one of the largest financial institutions in the Commonwealth. The Department's record keeping, both computerized and manual, tracks the accounts of nearly 4 million taxpayers—virtually every adult in the Commonwealth and over 150,000 non-residents.

FY87 was a watershed year in the Department's drive to keep its computer capabilities state-of-the-art. DOR completed the first stage of programming for its long-planned, integrated computer system, MASSTAX, by finishing 420 different programs containing over 1.5 million lines of codes. In FY87, 106 employees were trained in the intricacies of the MASSTAX system; they, in turn, will train their co-workers. This program will increase the quality and amount of help available to system users and will decrease the mystery that surrounds any new technology.

MASSTAX will revolutionize the way the Department of Revenue manages its information and does its business. In a fundamental change for the Department, MASSTAX will organize information by taxpayer rather than tax type. For example, a business' corporate excise, sales and withholding tax records will be consolidated for the first time under one registration. This will replace the current system which requires time-consuming cross referencing among the different tax types to get a full picture of a taxpayer's status and history.

When all phases of the project are implemented, MASSTAX will provide the comprehensive aggregate information necessary to determine industry trends and develop better models from which to select audit candidates. Once complete, MASSTAX should be one of the largest systems of its kind, capable of serving taxpayers well into the 21st century.

The Department moved forward in other areas of technology during FY87 as well. Office automation spread further throughout DOR with the total number of workstations increased to 160. Employees received over 2300 hours of hands-on training from the Department's technical experts on how to make the best use of the powerful data management and analytic tools available through OASIS, its office automation system. A fully-networked system, OASIS has improved productivity and working conditions dramatically. From revising forms to tracking expenditures to editing an annual report, OASIS has reduced the time and tedium that these tasks traditionally demanded.

In FY87, the Department of Revenue's 2100

John Piscopo and Henry Rudnicki of DOR's Information Services Organization (ISO) discuss scheduling a run of taxpayer information in the Department's library of computerized taxpayer records. ISO oversees a computer system that handles over four million accounts and over ten million transactions each year.

employees were stationed throughout the various tax and Local Services divisions in 17 Massachusetts locations and 7 Multistate offices across the country. DOR employees form the backbone of the public success the Department has enjoyed in recent years. As importantly, they have made outstanding contributions in areas rarely perceived by the general public.

DOR employees, for example, achieved their highest participation rate ever in the annual Commonwealth of Massachusetts Employee Campaign (COMEC), with 94% of them joining the effort in FY87. At the same time, the Department's blood donor drive kept its rank as the most successful in State government.

The innovative Quality of Work Life (QWL) program continued to make welcome progress throughout the Department. QWL, which encourages cooperation between managers and their staffs to improve working conditions and productivity, expanded by year-end to include some 750 employees throughout the Department. Governed by union and management drafted Articles of Agreement, participants in the program were instrumental in redesigning tax forms to speed processing and in developing new computer programs.

Given the complicated and frequently changing nature of the work DOR employees perform, training continued to be vitally important. During FY87, for example, the Department provided nearly 40,000 hours of training to its new and veteran employees. Geared both to improving job performance today and preparing employees for career advancement tomorrow, courses included all aspects of tax law, managerial training and joint training programs with the Internal Revenue Service.

DOR EMPLOYEES FORM THE BACKBONE OF THE PUBLIC SUCCESS THE DEPARTMENT HAS ENJOYED IN RECENT YEARS.

DOR worked hard to improve the physical work environment as well with a record 65 office moves and renovations. Among the largest projects were relocating the main 150-person Division of Local Services into new offices in Boston while also securing space for the Division's first two regional offices in Worcester and Springfield. Plans also were developed to accommodate the influx of CSE staff at the start of FY88. ■

The heart and soul of DOR: Veteran employees honored for over 35 years of public service. (Back row, from left): Former First Deputy Commissioner Thomas Fitzpatrick and former Commissioner Ira Jackson presented awards to John Buckley, Mildred Hernon, George Osganian, Katherine Kennedy, Florence Lewis and Paul Blanchette. (Front row, from left): Florence Murphy, Frank Alicata, Brendan Bolan, Murray O'Brien, Richard Sylvia, Florence Reid, Eileen Casey, Margaret Leahy, Vivian Chancy, Lenore Gouvea and Anita Andrews. Not pictured: Lucille Baye's Hamburger, Albina Citro, Mary Healy, Jeanette Monroe and Edward Salmon. In FY87, service awards were given to 1,024 employees in honor of 11,200 total years of service to DOR.

LOCAL SERVICES

THROUGH ITS LOCAL SERVICES DIVISION, DOR INFLUENCES THE FISCAL HEALTH OF EVERY MUNICIPALITY IN THE COMMONWEALTH.

The Department of Revenue's responsibilities extend far beyond tax administration: Through its Local Services Division, DOR influences the fiscal health of every municipality in the Commonwealth. In fact, the Division of Local Services is State government's primary link with Massachusetts' 351 cities and towns.

As the State's role in providing funding for Massachusetts communities has grown larger, the importance of the Division of Local Services has increased. In 1980, for example, voters approved Proposition 2½ which for the first time limited the amount that municipal governments could raise through the property tax. For some communities that meant tight new ceilings on how much their tax levy could be raised each year; for many others—especially the larger, poorer cities—Proposition 2½ meant deeply cutting their budgets to meet the new guidelines. For all communities, it signaled a new demand for more efficient fiscal management.

The Local Services Management Team: (Seated): Deputy Commissioner Edward Collins; (Standing, from left): Harry Grossman, Chief, Property Tax Bureau; Jane Malme, Chief, Bureau of Local Assessment; Leslie Kirwan, Executive Assistant to Deputy Commissioner; Louis Hayward, Chief, Municipal Data Management and Technical Assistance Bureau (MDM-TAB); Marielien Murphy, Director, Bureau of Accounts; and Jeff Wulfson, Director of Administration.

DOR's Division of Local Services has been able to help local governments adjust to the fiscal environment of the 1980's and beyond in a number of crucial ways. As the conduit through which nearly all State aid flows, DOR has provided more than just timely distribution of these revenues: The Department has also worked closely with municipalities, the Legislature and the Executive Office of Administration and Finance to produce the data and analysis needed to develop the distribution formulas each year. At the same time, DOR is responsible for certifying local property tax rates to ensure that they stay within Proposition 2½ limits while meeting the highest assessing standards. DOR has also been able to offer cities and towns extensive *pro bono* consulting services on every aspect of municipal finance.

During FY87, DOR oversaw the distribution of $2.6 billion in State Aid to cities, towns and regional school districts. Because State aid has grown so rapidly—an increase of over $1 billion in just the last five years—DOR's role has grown both in complexity and scope. Thanks to Legislative support for setting the overall State aid figure as soon as possible, DOR has been able to produce its "Cherry Sheets" (so-called because they were originally

printed on pink paper) much more quickly in recent years. The all-important bottom line detailing State aid for the coming fiscal year, Cherry Sheet figures are essential for every city and town in order to set their annual budgets.

Starting in FY83, DOR computerized its Cherry Sheet production. In FY87, that effort paved the way for completing all calculations for each municipality in record time and, most importantly, for distributing the final aid figures earlier than ever before possible. DOR also prepared for a major change in Cherry Sheet aid distribution for FY88. For the first time, the Commonwealth will be able to distribute this revenue quarterly as opposed to bi-annually. This accelerated distribution will transfer to cities and towns some $7 million a year in interest income which had traditionally accrued to the State.

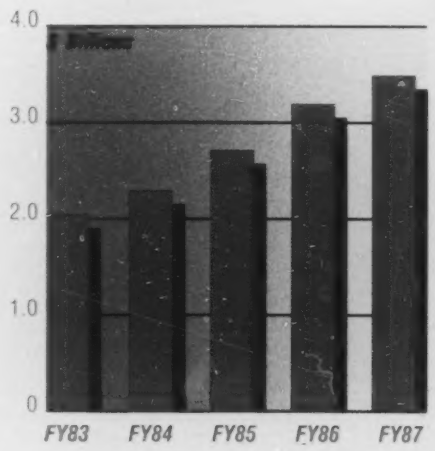
Overall, State aid has grown from only 27.7% of local budgets in FY81 to an all time high of 37% in FY87. The Commonwealth also gave municipalities the authority in 1985 to raise revenue through local option taxes on hotel/motel accommodations and jet fuel. Both measures have become an important source of revenue for many cities and towns and have helped to diversify their tax bases beyond just the property tax.

DOR is an important part of this process. The Department collects both taxes for communities, remitting them twice a year. This system has proved highly successful because cities and towns get the benefit of the revenue without the complications and expense of administering a tax. In FY87, for example, the revenue from these sources reached an unprecedented level, with the 78 communities which have enacted one or both of the taxes receiving $34.5 million.

Throughout the year, the management specialists in the Department of Revenue's Division of Local Services offer a wide range of consulting assistance to every community in the Commonwealth. Confronted by increasingly complex issues of municipal finance, cities and towns turn to the Division for advice in both raising revenue and managing their resources. Through the Division of Local Services, State government is able to provide help and guidance to communities in their efforts to ensure the highest level of municipal services for their residents in the most cost effective manner.

The Division of Local Services has a significant impact through its responsibility for certifying every community's annual property tax rate. Based in part on meeting the limitations of Proposition 2½, certification also hinges on a community's ability to achieve full and fair valuation of all taxable property and prepare a balanced budget. Tax rate approval, then, puts the Division of

DIRECT AND INDIRECT AID TO CITIES AND TOWNS



Louis Hayward, MDM-TAB Chief, teaches officials from other state agencies how Local Services' Data Bank can help them in their work with cities and towns.

Local Services squarely in the middle of each community's most important financial questions.

Regulating financial management in 351 unique cities and towns is a complicated and time-consuming process. In recent years, the Division has made its job easier —and the work of local officials simpler—by adopting a strategy that emphasizes giving local officials the tools they need to comply fully with the best fiscal practices available anywhere in the country.

DOR recognized early on that many of the most commonly encountered difficulties in local financial management were the result of a lack of training. In 1980, nearly half of all assessors had never taken a course in assessing or appraisal. By the end of FY87, thanks to Local Services' training efforts—including the development of a thirty-hour course which is now a requirement for all assessors under Massachusetts law—98% of all assessors had met the Commonwealth's professional standards.

All 351 Massachusetts cities and towns were able to revalue their property at 100% of fair cash value by 1986—an accomplishment achieved in few other states and one for which Massachusetts is now viewed as a national model. To maintain these hard-earned values, DOR reviews local assessments every three years to certify that they continue to reflect full and fair value, with 108 communities recertified in FY87.

FY87 marked the on-line debut of an important new service that could eventually save communities as much as 60% of revaluation costs. Three years in the planning, the Computer Assisted Mass Appraisal System, known as CAMA, offers communities a more efficient way of performing property revaluations by computerizing the process. While many communities must currently rely on costly outside contractors to perform these revaluations, DOR provides the software and training needed to implement CAMA free of charge. This System offers local assessors state-of-the-art tools developed with State resources while preserving local independence and control. At the close of the year, the first 17 communities were implementing the system.

In 1983, Local Services created its Municipal Data Bank. This pioneer effort rests on a mainframe computer data base containing extensive comparative financial information on each of the Commonwealth's cities and towns—from the largest and most urban to the smallest and most rural. In-depth reports from the Data Bank can give an invaluable financial and demographic profile of a community which outlines both existing and potential trouble spots. During FY87, the Data Bank staff produced 547 customized data bank reports for local officials.

In a closely related effort, Division experts work with local officials to solve existing problems or, often most importantly, avoid a crisis down the road. During FY87, the Division's management consulting team provided in-depth technical assistance to 35 communities.

DOR has also helped improve municipal management by helping communities convert their accounting systems to UMAS—Uniform Municipal Accounting System—the professional standard for local government accounting. FY87 saw another 40 communities improve their accounting and financial reporting systems through UMAS conversions, bringing the total to 200 communities which now use the System.

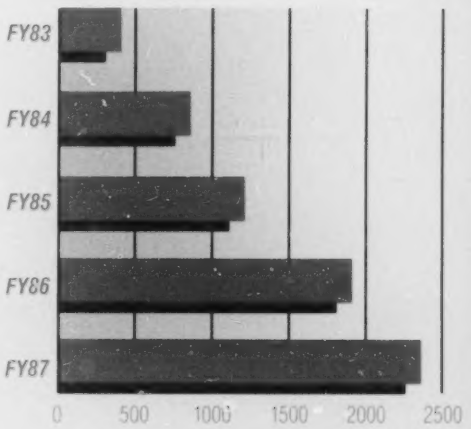
The Division offers a variety of courses, seminars and workshops each year, which enable veteran local officials to improve their skills and help train newly elected officials in the basics of their jobs. Since FY83, the Division has provided training to 6,838 local officials—2,398 received training in FY87 alone.

In FY87, the Division released the third in a continuing series of guidebooks developed for local officials: A detailed 300-page law and procedures guide for treasurers. Like previously published companion guides for assessors and collectors, the Treasurers Manual was distributed free of charge to every community in the Commonwealth.

Local Services expanded its assistance in FY87 by creating a new Analysis Unit capable of studying trends and innovations in municipal finance. Its first project—the most comprehensive analysis to date on the efforts of Massachusetts communities to override Proposition 2½—received wide distribution. The report offered local officials essential up-to-date data as well as a sense of historical perspective by tracking all override votes since the first one taken in early 1982.

In order to bring the full range of its services closer to local officials across the State, the Division opened two regional offices in Worcester and Springfield in FY87. Behind these significant efforts to spread information and increase professionalism at the local level lies DOR's firm belief that today's training is one of the most effective ways to prevent tomorrow's fiscal problems.

LOCAL OFFICIALS TRAINED BY LOCAL SERVICES



THROUGHOUT FY87, DOR LAID THE FOUNDATION FOR A NEW CHILD SUPPORT ENFORCEMENT PROGRAM CAPABLE OF PROTECTING CHILDREN AGAINST THE DEVASTATING IMPACT OF PARENTAL FINANCIAL NEGLECT.

Gathering at the State House to mark DOR's takeover of Child Support Enforcement from the Department of Public Welfare are: (from left): Catherine Dunham, Director of the Governor's Office of Human Resources; Charles Barry, Secretary of Public Safety; Trooper Richard Boyd; Grady Hedgespeth, Deputy Commissioner for CSE; Charles Atkins, Public Welfare Commissioner; Governor Michael S. Dukakis; Ira A. Jackson, former Commissioner of Revenue; Kevin Burke, Essex County District Attorney; Philip Johnston, Secretary of Human Services; and Edward F. Hennessey, Chief Justice of the Massachusetts Supreme Judicial Court.

CHILD SUPPORT ENFORCEMENT

Long in the vanguard of welfare reform, Massachusetts took another leap forward at the beginning of FY87 by becoming the first industrial state to decide to transfer its Child Support Enforcement (CSE) Program to its Department of Revenue. Chapter 310 of the Acts of 1986 paved the way for DOR's assumption of CSE duties and represented a major investment by the Commonwealth in the future of its children.

The Legislature enacted Chapter 310 after months of careful study by Governor Dukakis' Commission on Child Support revealed that the problem of non-support was as wide-spread and had grown as rapidly as the number of single-parent households. More than half of all children born today, for example, will live at some point with only one parent; at the same time, the low rate of compliance with child support orders forces tens of thousands of children to live near or in poverty. In many cases, their families are forced to turn to Aid to Families With Dependent Children (AFDC) and other programs for support at an estimated annual cost of well over $500 million.

After years of piecemeal growth, the responsibility for collecting child support was spread across nearly 100 jurisdictions with varying standards, resources and procedures. Although the Department of

Public Welfare (Welfare) had pursued delinquent payments for their clients and the Commonwealth with vigor and success, non-Welfare custodial parents received little centralized support.

Spurred by these stark realities as well as tightened federal requirements, the Legislature voted to expand and consolidate services to all children entitled to child support, regardless of whether or not they were on AFDC. The Commission also proposed that new Child Support Guidelines be promulgated for judges to use in setting equitable support levels. Careful implementation of the Guidelines developed by the Trial Court should ensure, over time, the establishment of more uniform support orders and protect children from what one study found has been a dramatic 73% decline in their standard of living following a divorce.

Once the new law is fully implemented, wage assignments for the 20,000 new support orders issued each year will be routine—in much the same way that withholding is deducted automatically from paychecks for federal and state taxes. DOR will also encourage non-custodial parents with existing orders to take advantage of this system. Eventually, wage assignments, which are the simplest way to comply with court orders, will be nearly universal.

In the thousands of cases annually in which paternity is disputed, DOR will be able to move swiftly to establish paternity through secure and reliable blood testing. Under Chapter 310, paternity establishment has been made a civil rather than a criminal procedure. This change should benefit all those involved, particularly the 15,000 children born out of wedlock every year in Massachusetts.

The plans for CSE include a greater sharing of information between CSE and the Internal Revenue Service as well as DOR itself so that tax refunds due delinquent parents can be intercepted for the benefit of their children. In the same way, DOR will work with the Division of Employment Security (DES) to intercept the unemployment insurance benefits of parents who are in arrears.

With these goals in mind throughout FY87, DOR laid the foundation for a new Child Support Enforcement Program capable of protecting children against the devastating impact of parental financial neglect. With its other partners in the effort, particularly the Courts, Legislature, District Attorneys and Welfare Department, DOR prepared for a more aggressive and targeted enforcement drive to include, eventually, lien and levy powers akin to those DOR has employed so effectively against tax evaders and delinquents.

Entering a truly new era of child support enforcement is going to take several years of concentrated and careful implementation. For the hundreds of thousands of children in the Commonwealth who depend on child support, it cannot happen soon enough. Fortunately for them, DOR, along with judges, legislators, law enforcement officials and many other concerned adults across the Commonwealth, has begun a major campaign on their behalf.

DOR/CSE's Denise Wagner Roedner welcomes Welfare employees to a special DOR orientation gathering. Over 300 experienced Welfare workers joined DOR when it assumed responsibility for Child Support Enforcement.

LEGISLATIVE ACCOMPLISHMENTS

Fiscal Year 1987 was a landmark legislative year for the Commonwealth's taxpayers. Repeal of the State's surtax on personal income resulted in the largest single tax cut in Massachusetts history. The no-tax status was raised again, freeing another 70,000 low income residents from income tax responsibilities, and bringing the total increase since FY83 in those eligible for no-tax status to 315,000. Some 15,000 small businesses (so-called S corporations) received much needed tax relief. And, a variety of personal exemptions were restored or revised.

At the same time, DOR's mandate was significantly expanded by the passage of Chapter 310 of the Acts of 1986 which transferred responsibility for the Commonwealth's child support system to the Department. Chapter 310 also set specific new standards to protect children living with one parent by offering provisions ranging from automatic wage withholding to simplified paternity-proving procedures.

A series of other changes in the law affecting personal income tax, the corporation excise, sales and use taxes and local taxation were enacted. There were also a number of administrative and enforcement provisions.

Here is a summary of the year's legislative accomplishments, by tax category:

PERSONAL INCOME TAX

1986 RETURNS (Taxable years commencing on or after January 1, 1986)

- Total repeal of the surtax with tax rates for Part A income cut from 10.375% to 10% and Part B income cut from 5.1875% to 5%.
- Massachusetts adopted S corporation rules essentially providing that the income or loss of S corporations may now be reflected in the personal income tax returns of individual shareholders. (see discussion below)

1987 RETURNS (Taxable years commencing on or after January 1, 1987)

Exemptions—Chapter 488 restores and revises the personal exemptions nullified by the Supreme Judicial Court decision holding that the system of diminishing exemptions enacted last year (St. 1985, c. 593 , s. 6) violated the uniformity requirement of Article 44 of the Massachusetts Constitution.

- For a single person, the personal exemption remains at $2,200.
- For a married couple filing jointly, the personal exemption will be $2,200 each, whether or not the spouse is working.
- For a married person filing separately, the personal exemption will be increased from $1,100 to $2,200.
- For dependents, the exemption is increased from $700 to $1,000.

No change has been made in the existing additional exemptions for taxpayers 65 years of age or over ($700); or for the blind ($2,200).

No-Tax Status (the level of income below which no Massachusetts income tax is due) increases from $6,000 to $8,000 of Massachusetts Adjusted Gross Income (AGI) for single persons and from $10,000 to $12,000 of Massachusetts AGI for married couples filing jointly.

Limited Income Tax Reduction Credit, a transitional maximum tax is imposed not exceeding 10% of the excess above the no-tax threshold for single persons with a Massachusetts AGI of up to $14,000 and for married couples filing jointly with a Massachusetts AGI of up to $21,000.

The Filing Threshold for income tax returns is increased from $6,000 to $8,000 of Massachusetts gross income.

Capital gains/losses

Capital losses may be carried forward without limitation. The five-year limit is repealed.

Massachusetts basis adjustment rules are adopted to take into account differences between Massachusetts and federal tax laws.

Capital gains treatment is limited to capital assets as defined in Section 1221 of the U.S. Internal Revenue Code. St. 1986, c. 488.

Contributions—Every individual who files a separate return and every husband and wife filing a return jointly may voluntarily contribute all or part of any refund to which they are entitled or may voluntarily add an amount to be credited to the Massachusetts Nongame Wildlife Fund. St. 1986, c. 570.

CORPORATION EXCISE

(Taxable years commencing on or after January 1, 1986)

S Corporations

S corporation rules are adopted in conformity with Internal Revenue Code provisions.

S corporations are only taxed under the property measure of the excise.

S corporation income or loss is determined as if it were realized or incurred directly by an individual subject to taxation under G.L. c. 62.

Income flows through the S corporation and is taxed to the individual shareholders.

Transition Rules—Any S corporation may elect to be taxed as a C corporation for tax years ending on or before December 31, 1987, provided that the corporation is incorporated before January 23, 1987, and files its first federal S election before said date.

If the S corporation is subject to taxation in Massachusetts, such election must be filed with its return for each tax year and each shareholder must attach a copy of such written election to his or her own return for each tax year.

If the S corporation is not subject to taxation in Massachusetts, each shareholder must attach a copy of the corporation's written election to his or her own return for each tax year. St. 1986, c. 488.

SALES TAX

Candy or snacks selling for less than $1.00 through a vending machine are exempt. Effective January 23, 1987.

Any item purchased with federal food stamps and otherwise taxable is exempt. Effective October 1, 1986.

Where a sale is rescinded and the purchase price is refunded within 90 days (180 days for motor vehicles), the sales tax may be refunded even though the seller retains an established handling fee. Effective January 23, 1987. St. 1986. c. 488.

ADMINISTRATIVE PROVISIONS

The time period for collecting unpaid State taxes is reduced from 10 years to 8 years (as of January 1, 1987) and to 6 years effective January 1, 1988.

DOR's levy is modified to a 6-month continuing levy upon wages or other property. Effective January 23, 1987.

Commissioner's authority to abate unpaid tax accounts, where small balances do not warrant the administrative collection costs, is increased from $10 to $50. Effective January 23, 1987.

Apportionment and allocation of exemptions and deductions under personal income tax is clarified for non-residents and part-year resident taxpayers. Effective for taxable years commencing January 1, 1986.

The Commissioner is authorized to issue or renew tax registrations for limited periods of 3 years or more; and grounds for refusal to issue, suspend or revoke a license or registration have been enlarged. Effective January 23, 1987.

Offset of overpayments and underpayments is required in the audit of multiple periods of the same tax. Net overpayments are refundable without the filing of an application for abatement. Effective January 23, 1987. St. 1986, c. 488.

Certificates of good standing issued for sellers of businesses must indicate that the seller's obligations for unemployment taxes are not included on said certificate. Effective October 13, 1986. St. 1986, c. 238.

The Commissioner is authorized to require room occupancy operators to file quarterly returns rather than on a monthly basis or on such other basis as he may determine and to have different filing periods for different groups of operators. Effective January 8, 1987. St. 1986, c. 423.

The time period DOR has to process, verify and issue certain tax refunds is reduced from six months to 90 days. Effective March 17, 1987, St. 1986, c. 615.

LOCAL TAXATION

A city or town is authorized to assign its right of first refusal to meet a *bona fide* offer to purchase classified forest and recreational land or an option to purchase such land to a non-profit conservation organization. Effective September 14, 1987. St. 1987, c. 142.

A late boat excise payment penalty equal to $20 or 20% of the excise due, whichever is greater, is now imposed for the first time. The penalty is in addition to the amount of excise due and interest. If the excise remains unpaid, the harbormaster shall refuse to allow the vessel to moor, dock or otherwise be situated within the waterways of said municipality. Effective June 25, 1987. St. 1987, c. 175.

Local option room occupancy or aircraft (jet) fuel taxes adopted by municipalities take effect on the first day of the calendar quarter following 30 days after such acceptance, or on the first day of such later calendar quarter as the city or town may designate. A municipality may not revoke or otherwise amend the applicable local tax room occupancy rate more often than once in any twelve month period. Effective for local acceptances enacted on or after October 1, 1986. St. 1986, c. 423.

CHILD SUPPORT ENFORCEMENT

On July 22, 1986, Governor Michael S. Dukakis signed into law Chapter 310 of the Acts of 1986, authorizing the transfer of the Commonwealth's child support enforcement duties from the Department of Public Welfare to DOR. Specifically, Chapter 310 includes the following provisions:

Massachusetts is brought into compliance with the federal Child Support Enforcement Act of 1984.

DOR is designated the IV-D agency, the single state agency responsible for child support enforcement in Massachusetts, as of July 1, 1987. DPW is the IV-D agency until that date.

Administration and enforcement of child support orders are centralized in the IV-D agency.

Proceeding to establish paternity converted from a criminal action in the district court to a civil action, which may be brought in district or probate court.

Nonsupport no longer must be established in a criminal proceeding. Nonsupport is now determined in a civil action either in district or probate court; and failure to comply with the civil support order is enforceable through criminal action.

Use of State tax refund intercepts to pay child support arrearages is authorized.

Information about child support arrearages in excess of $1,000 is available to credit agencies upon request—either on list basis or specific individual request.

Wage assignment (withholding) procedures, which automatically take effect 14 days after delinquency, have been revised, expanded and strengthened.

Wage information sharing with other states on reciprocal basis of lists of absent parents with child support arrearages is authorized.

LOCAL AID RECEIPTS FOR CITIES, TOWNS AND REGIONAL SCHOOL DISTRICTS

(in millions)

ITEM RECEIPTS						
Cities and Towns	**FY83**	**FY84**	**FY85**	**FY86**	**FY87**	**$Change**
REIMBURSEMENTS						
Loss of Taxes, 7 programs	$ 28.7	$ 31.5	$ 30.0	$ 32.7	$ 35.9	$ 3.2
Veterans' Benefits	10.7	8.2	7.5	11.7	10.0	(1.7)
Pensions to Retired Teachers	20.5	21.3	20.1	21.5	22.3	0.8
Urban Renewal, 2 programs	1.6	1.6	1.7	1.8	1.2	(0.6)
School Transportation	60.7	58.1	53.6	101.4	56.8	(44.6)
Public Libraries, 2 programs	7.0	7.0	10.4	8.9	14.5	5.6
School Construction & Repair	87.0	79.2	78.8	82.4	95.8	13.4
Racial Imbalance, 3 programs	15.5	17.0	19.9	20.2	25.2	5.0
School and Elderly Lunch	5.4	5.2	5.5	4.6	5.4	0.8
Highway & Transit, 2 programs	21.0	21.0	21.0	21.0	21.0	—
Residential School Costs	5.9	6.2	6.4	5.5	—	(5.5)
Other Programs	13.6	15.4	31.9	66.9	126.8	59.9
TOTAL REIMBURSEMENTS	**$ 277.6**	**$ 271.7**	**$ 286.8**	**$ 378.6**	**$ 414.9**	**$ 36.3**
DISTRIBUTIONS						
School Aid, Chapter 70, as amended (including prior year adjustments) & Apprentice Training	$ 639.4	$ 759.9	$ 881.1	$ 924.5	$ 1,000.0	$ 75.5
Lottery, Beano, etc.	97.1	96.8	146.9	174.1	170.0	(4.1)
Additional Assistance	483.3	485.7	509.2	559.2	714.5	155.3
Highway Fund	23.7	23.5	21.2	21.8	23.2	1.4
Urban Redevelopment Excise	21.6	28.3	50.1	36.3	37.1	0.8
Boston Funding Loan Act	2.6	6.4	7.0	11.8	14.0	2.2
TOTAL DISTRIBUTIONS	**$1,267.7**	**$1,400.6**	**$1,615.5**	**$1,727.7**	**$1,958.8**	**$231.1**
TOTAL RECEIPTS—Cities and Towns	**$1,545.3**	**$1,672.3**	**$1,902.3**	**$2,106.3**	**$2,373.7**	**$267.4**
Regional School Districts						
REIMBURSEMENTS						
Regional School District Aid	$ 45.8	$ 47.6	$ 62.4	$ 70.4	$ 78.0	$ 7.6
School Transportation	15.6	21.9	22.7	23.9	26.1	2.2
School Construction and Repair	19.3	14.5	14.3	15.0	17.4	2.4
Residential School Costs	0.5	0.9	0.5	1.3	—	(1.3)
Other Programs	3.5	3.8	4.4	10.5	14.7	4.2
TOTAL REIMBURSEMENTS	**$ 84.7**	**$ 88.7**	**$ 104.3**	**$ 121.1**	**$ 136.2**	**$ 15.1**
DISTRIBUTIONS						
School Aid, Chapter 70, as amended (including prior year adjustments)	$ 76.9	$ 100.2	$ 101.2	$ 107.5	$ 107.6	$ 0.1
TOTAL RECEIPTS—Regions	**$ 161.6**	**$ 188.9**	**$ 205.5**	**$ 228.6**	**$ 243.8**	**$ 15.2**
TOTAL DIRECT AID*	**$1,706.9**	**$1,861.2**	**$2,107.8**	**$2,334.9**	**$2,617.5**	**$282.6**
INDIRECT LOCAL AID**	**$ 535.6**	**$ 605.8**	**$ 694.4**	**$1,000.4**	**$1,018.0**	**$ 17.6**
Total Aid						
Cities, Towns, Regional School Districts & Locally Related	**$2,242.5**	**$2,467.0**	**$2,802.2**	**$3,335.3**	**$3,635.5**	**$300.2**

*"Total Direct Aid" figures for FY83 through FY86 are actual payments for Cherry Sheet programs; FY87 figures are Cherry Sheet estimates.

**"Indirect Local Aid" figures are provided by the Budget Bureau.

MASSACHUSETTS STATE AND LOCAL TAX REVENUE

(in thousands)

TAX SOURCE	FY83	FY84	FY85	FY86	FY87	%Change
Taxes On Property (Local)						
Real Estate	$ 2,750,099	$ 2,810,593	$ 2,913,354	$ 3,137,898	$ 3,373,497*	7.5
Personal Property	208,971	184,309	176,716	171,487	160,187	(6.6)
Motor Vehicle	148,722	150,305	203,176	241,020	237,869	(1.3)
TOTALS	**$3,107,792**	**$3,145,207**	**$3,293,246**	**$ 3,550,405**	**$ 3,771,553**	**6.2**
Tax on Personal Income						
TOTALS	**$2,472,264**	**$2,790,111**	**$3,158,998**	**$ 3,628,493**	**$ 3,995,649**	**10.1**
Taxes on Business						
Corporations	$ 506,113	$ 569,265	$ 666,423	$ 802,858	$ 814,082	1.4
Insurance Companies	134,875	135,009	163,684	187,896	215,071	14.5
Public Utilities	40,482	53,503	45,589	73,140	57,635	(21.2)
Commercial Banks	66,358	67,247	97,835	121,163	120,527	(0.5)
Savings Banks	37,603	32,020	31,086	58,403	85,237	45.9
Cooperative Banks & Savings & Loan Associations	10,018	7,331	9,398	13,785	23,401	69.8
TOTALS	**$ 795,449**	**$ 864,375**	**$1,014,015**	**$ 1,257,245**	**$ 1,315,953**	**4.7**
Taxes on Commodities Sold						
Motor Fuels	$ 250,425	$ 275,003	$ 283,062	$ 288,603	$ 297,404	3.0
Cigarettes	142,912	169,912	174,793	173,264	170,626	(1.5)
Alcoholic Beverages	82,278	83,524	83,195	80,258	80,321	0.1
Sales & Use	865,292	1,041,798	1,209,523	1,452,092	1,600,004	10.2
Sales, Meals	186,420	206,264	228,956	258,108	265,750	3.0
TOTALS	**$1,527,327**	**$1,776,501**	**$1,979,529**	**$ 2,252,325**	**$ 2,414,105**	**7.2**
Other Taxes						
Estate & Inheritance	$ 111,850	$ 127,140	$ 153,602	$ 210,714	$ 223,084	5.9
Horse & Dog Racing	35,422	36,828	36,033	37,168	35,679	(4.0)
Room Occupancy	27,510	32,225	35,336	43,022	47,233	9.8
Deeds Stamp	15,397	25,030	34,708	49,277	59,854	21.5
Beano	5,277	5,376	5,375	5,275	5,150	(2.4)
Club Alcoholic Beverage	431	238	350	387	372	(3.9)
Motor Vehicle	422	487	549	527	344	(34.7)
Raffles/Bazaars & Div. of Insurance	959	1,009	1,035	1,078	6,754	526.5
Savings Dep. Ins./Mass. Hous. Partnership	—	—	—	11,000	12,282	11.7
Sav. Co-op Ins./Oil Haz. Material	—	—	—	—	21,000	NA
Urban Redevelopment	28,225	28,687	38,548	36,536	42,207	15.5
Local Option Airplane Jet Fuel	—	—	—	11,375	13,223	16.2
Local Option Room Occupancy	—	—	—	10,786	23,157	114.7
TOTALS	**$ 225,493**	**$ 257,020**	**$ 305,536**	**$ 417,145**	**$ 490,339**	**17.5**
All Taxes						
TOTALS	**$8,128,325**	**$8,883,214**	**$9,751,324**	**$11,105,613**	**$11,987,599**	**7.9**

Because of rounding, detail may not add to Totals.

**The DOR has estimated the collections for the purpose of this comparison.*

FISCAL YEAR 1987

TYPE OF TAX	MEASURE	RATE[1]	RETURN DUE
Personal Income	Dividends, Capital Gains[2] & Interest other than Mass. bank interest.	10.0%	On or before April 15 for calendar year filings. The 15th day of the 4th month for fiscal filings.
	Other income	5.0%	
Estimated Tax			Due quarterly on or before the 15th day of April, June, September and January.
Estate	Taxable estate (after expenses, debts, losses, exemptions, charitable and marital deductions)	5% to 16%	Within 9 months after the date of the decedent's death.
Alcoholic Beverages	Malt (31-gal. bbl.)	$3.30	Monthly, on or before the 20th day of the month.
	Cider 3%–6% (wine gal.)	$ .03	
	Still wine 3%–6% (wine gal.)	$ .55	
	Sparkling wine (wine gal.)	$ .70	
	Alcoholic beverages 15% or less (wine gal.)	$1.10	
	Alcoholic beverages more than 15%–50% (wine gal.)	$4.05	
	Alcoholic beverages more than 50% (proof gal.)	$4.05	
Cigarettes	20-Count package	$ .26	Monthly, on the 20th day of the month. Unclassified importers must file upon importation or acquisition.
Deeds	Sales price (less mortgage assumed) of real estate	$1.14 per $500	Monthly, on or before the 10th day of the month.
Motor Fuels	Gasoline and Diesel Fuel per gallon[3]	10%	Monthly, on or before the 20th day of the month.
	Average wholesale price		
	Propane, Liquified Gas, etc.	10%	
Room Occupancy	Transient Room Occupancy	5.7%	On or before the 20th day following the close of the tax period.
	At local option, up to	4.0%	**If annual liability:**
			Up to $25,000—Monthly filings
			Over $25,000—Monthly payments, Quarterly filings
Sales and Use Tax	Sale, rental or use of tangible personal property	5%	On or before the 20th day following the close of the tax period.
			If annual liability:
			Up to $100—Annual filing
			$101–1,200—Quarterly filings
			$1,201–25,000—Monthly filings
			Over $25,000—Monthly payments, Quarterly filings

[1] Tax rates as of December 5, 1987.

[2] While capital gains are taxed at 10.0%, taxpayers can deduct 50% of net long-term capital gains, creating an effective tax rate of 5%.

[3] Rate is 10% average of wholesale price, with an 11¢ floor.

THE TAXES
(CONTINUED)

TYPE OF TAX	MEASURE	RATE	RETURN DUE
Sales Tax on Meals, Prepared Food and/or Alcoholic Beverages	All "restaurant" food and on-premise consumption of alcoholic beverages in any amount.	5%	On or before the 20th day following the close of the tax period. **If annual liability:** Up to $25,000—Monthly filings Over $25,000—Monthly payments, Quarterly filings
Business Corporation	Net Income Tangible Property or Net Worth Minimum	9.5% $2.60 per $1,000 $228	15th day of third month after close of taxable year.
Estimated Tax	Liability in excess of $1,000		Due quarterly as follows: 15th day of third month of taxable year—30% 15th day of sixth month of taxable year—25% 15th day of ninth month of taxable year—25% 15th day of twelfth month of taxable year—20%
Security Corporation			
Regulated	Gross Income	0.33%	Same as business corporations.
Unregulated	Gross Income Minimum	1.32% $228	
Commercial Bank and Thrift Institution	Net Income	12.54%	Same as business corporations.
Public Utilities	Net Income	6.5%	Same as business corporations.
Insurance Company			
Domestic Life	Premiums Mass. Net Investment Income	2.0% 14.0%	On or before March 15.
Foreign Life	Premiums	2.0%	
Domestic Casualty	Premiums Gross Investment Income	2.28% 1.0%	On or before March 15.
Foreign Casualty	Premiums	2.28%	
Ocean Marine	Underwriting Profit	5.7%	On or before May 15.
Club Alcoholic Beverages	Gross Receipts	0.57%	On or before April 15.
Motor Vehicle garaged outside Massachusetts	90% to 10% of Manufacturer's list price	$25 per $1,000	On or before thirty days from issuance of tax bill.

OFFER IN FINAL SETTLEMENT

Under the 1983 Revenue Enforcement and Protection Act, extended by Chapter 593 of the Acts of 1985, the Commissioner of Revenue has the authority, under specific conditions, to accept less than full payment as a final settlement for a State tax liability. The statutory condition for such settlements is "serious doubt" as to collectibility of the tax due or the taxpayer's liability for it. The Commissioner must also determine that the taxpayer has acted without intent to defraud. The settlement must be recommended to the Commissioner by at least two deputy commissioners.

The written agreement, signed by all parties and including the reasons for the settlement, is a public record. Any agreement in which the tax reduction is $20,000 or more or the settlement is less than half the full liability must be submitted to the Attorney General for review.

The law requires that a listing of all settlements entered into during the fiscal year be included in the Commissioner's annual report. In Fiscal 1987, thirteen settlements were made. All were reviewed by the Attorney General. Forty-five other offers for settlement were refused.

The thirteen cases approved were as follows:

NAME	TOTAL TAX INT. & PEN.	AMOUNT IN SETTLEMENT	AMOUNT ABATED
Westminster-Willard Housing Project	$2,627,867.68	$1,200,000.00	$1,427,867.68
Mario & Maria D'Alelio	20,811.65	10,000.00	10,811.65
Richard Ladenburg	24,490.19	15,000.00	9,490.19
Townsend North, Inc.	25,466.04	20,000.00	5,466.04
White's Delicatessen	14,277.23	3,500.00	10,777.23
Philip Ciampa	5,881.79	2,600.00	3,281.79
Federal Paint and Wallpaper Inc.	74,897.04	40,000.00	34,897.04
Boston Auto Realty Trust	13,056.22	5,890.00	7,166.22
EMBA Delivery Corporation	1,482.30	647.23	835.07
Commercial Union/Traveler's Indemnity	6,797,772.79	2,859,563.43	3,938,209.36
Dominic DiBenedetto	50,608.47	22,000.00	28,608.47
Arthur J. Webster dba Barnstorm Music Inc.	75,061.63	50,818.86	24,242.77
Marconi Club of Stoneham	36,155.75	10,000.00	26,155.75
TOTAL	**$9,767,828.78**	**$4,240,019.52**	**$5,527,809.26**

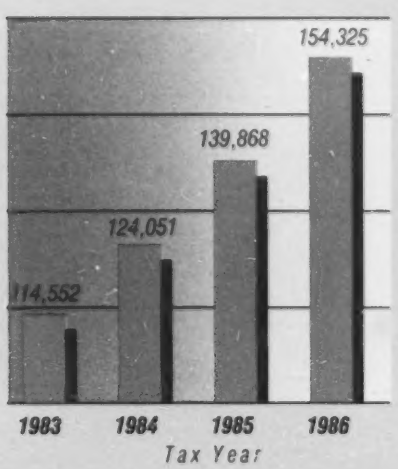
COLLECTION AGENCIES

Section 99 of the 1983 Revenue Enforcement and Protection Act (REAP), extended by Section 41 of Chapter 593 of the Acts of 1985, permits the Commissioner of Revenue to use private collection agencies to collect unpaid State taxes. The Commissioner is required to notify any taxpayer whose accounts are to be assigned to a collection agency at least thirty days beforehand.

The law requires that the Commissioner list all agencies with whom collection agreements exist, the amount of taxes collected and the amount of compensation paid in the Department's annual report. In late Fiscal Year 1987, DOR awarded new contracts in response to a Request for Proposal; collection activity under these new contracts begins in Fiscal Year 1988. The payments received for the fiscal year ending June 30, 1987 are residual collections from the prior year's contracts. They are as follows:

CONTRACTOR	TOTAL COLLECTED	FEES PAID	NET TO DOR
Financial Collection Agencies, Inc.	$30,601.11	$7,662.72	$22,938.39
Corliss Credit Services	3,131.25	626.27	2,504.98
TOTALS	**$33,732.36**	**$8,288.99**	**$25,443.37**

NUMBER OF MASSACHUSETTS INCOME TAX RETURNS FILED BY NON-RESIDENTS



PRACTITIONER LIAISON COMMITTEE

Established in 1984, the Practitioner Liaison Committee meets quarterly with the Commissioner of Revenue and his Executive Staff. A vital part of DOR's effort to communicate effectively with leading tax professionals, the Committee provides a unique forum for discussing problems of mutual interest, reviewing procedures and presenting proposals for change.

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More information on the Massachusetts Department of Revenue (DOR) is available from the Office of Communications, 100 Cambridge Street, Boston, MA 02204. (617) 727-4256.

FY87 Annual Report

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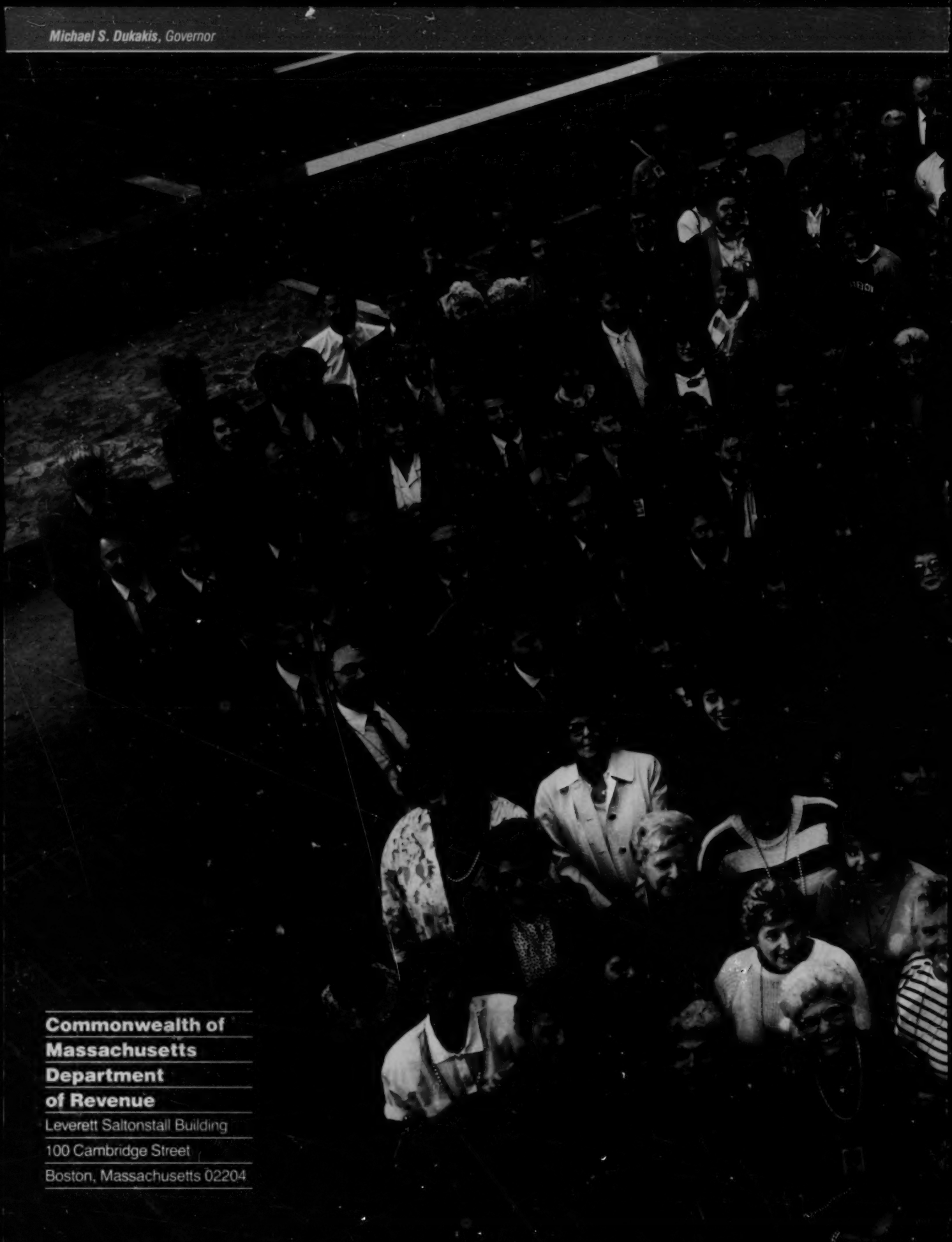
Cover Photo: *DOR honors its FY87 Pride in Performance nominees. A record number of DOR employees were nominated for their outstanding public service to the Commonwealth. The winners for individual and group achievement were: Compliance Bureau-Lien unit, Office of Facilities Management-Labor Unit, Jonathan Light (Manuel Carballo Award nominee), Ann McNulty, Janice O'Neill, Geralyn Page, Sandra Steele, Minoy Tate, and John Wisneski.*

Michael S. Dukakis, Governor



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